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No. 95-731

IN THE

Supreme Court Of The United States

October Term, 1995

AMERICAN HOME PRODUCTS CORPORATION

Petitioner,

v.

JOHNSON & JOHNSON
AND
ORTHO PHARMACEUTICAL CORPORATION

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

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INTRODUCTION

At best, respondents' opposition is no more than a determined effort to obscure the legal issues raised by this petition. The important issue at hand lies at the intersection among patent and other federal statutes that confer limited monopoly rights, this Court's decision in *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus, Inc.* 113 S.Ct. 1920 (1993), and the harmless error doctrine. Respondents' brief (Opp. at 3, 8-10) demonstrates the recurring nature of the facts relevant to this petition, and accordingly, the need for this Court's guidance if *Professional Real Estate Investors* is, in fact, to have any vitality

in areas governed by federal laws conferring limited monopolies.

The facts relevant to the legal issue presented are few and quite straightforward. In petitioner's suit for patent infringement, respondents asserted a counterclaim that alleged that the suit itself had been filed in bad faith for purposes of stifling competition. (As noted, respondents' opposition brief shows that this is a quite common defensive strategy.) Despite *Professional Real Estate Investors*, petitioner's efforts to have the counterclaim dismissed were rebuffed at every juncture. As a result, respondents were permitted to saturate the jury with inflammatory allegations regarding petitioner's bad faith and evil, anticompetitive motives. Although the jury subsequently found for petitioner on the counterclaim, it ruled for respondents on the patent infringement claim, which the district court improperly characterized as depending on the equities between the parties.

Respondents' entire argument is that petitioners were not entitled to dismissal of the counterclaim as a matter of law. That theme commences in the opening sentence of their brief. The argument is irrelevant: *the Federal Circuit assumed that the counterclaim should have been dismissed on the basis of Professional Real Estate Investors.* The court held, however, that any improper admission of evidence relating to respondents' counterclaim was *per se* harmless simply because the jury found against respondents on their counterclaim. The petition seeks review of that holding, and to the merits of the Federal Circuit's harmless error standard respondents devote only *one* unilluminating *paragraph* (Opp. at 10, last paragraph). And respondents make no effort — none — to defend the validity of the Federal Circuit's harmless error doctrine.

Instead, respondents seek to bury this petition, presenting it as involving no more than fact-intensive issues of no systemic importance. But respondents' own brief shows how common

(and how fruitful) it is for defendants to meet suits based on statutes conferring limited monopolies with the defense that the suit itself was commenced in bad faith for anticompetitive purposes. What is at stake in this petition, therefore, is the meaning of *Professional Real Estate Investors* in the area of federal statutes that confer limited monopolies. The court below assumed that respondents' counterclaim should have been dismissed, yet it affirmed on the basis of a newly fashioned harmless error standard. Petitioners have raised serious questions regarding that standard, and they have emphasized its potentially far-reaching and destructive consequences in areas where Congress has conferred limited monopolies. We submit, therefore, that the issue presented is one of systemic importance. If, as we contend, the Federal Circuit's standard was erroneous, this Court's practice is to so state, and then to remand to the court below to apply the proper standard to the facts of record. *See, e.g., Field v. Mans*, ___ U.S. ___, 64 U.S.L.W. 4015, 4020 (Nov. 28, 1995); *Thompson v. Keohane*, ___ U.S. ___, 64 U.S.L.W. 4027, 4032 (Nov. 29, 1995).

I.

Respondents' opposition brief is directed not at all to the Federal Circuit's harmless error standard but to what respondents would like the facts to be. Respondents' effort to bury the legal issue raised in a fact-intensive inquiry highlights the destructive consequences of the Federal Circuit's *per se* harmless error rule on the exercise of patent rights. Far from contradicting petitioner, respondents' opposition confirms the sweeping and pernicious effect of the ruling below in any case where Congress, pursuant to U.S. Const. art. I, § 8, cl. 8, has conferred monopoly rights.

Professional Real Estate Investors, *supra*, confirmed that a defendant must *first* prove an action to be objectively baseless *before* any evidence of the subjective motivation underlying the suit may be introduced. *Id.* at 1928. Absent such a showing,

subjective intent is irrelevant, and it may not be presented to a jury. Any other rule would completely eviscerate the constitutional right of petition by allowing a defendant, as here, unlimited license to portray the plaintiff as evil and thereby invite the jury to decide the case not on the merits but on its disapproval of the plaintiff.

The Federal Circuit's *per se* rule that evidence submitted in a losing cause on a counterclaim can never be harmful sharply conflicts with the right to petition recognized in *Professional Real Estate Investors*. The Federal Circuit's harmless error rule clearly encourages defendants to file frivolous counterclaims attacking plaintiffs' motives. So long as the jury denies the counterclaim, according to the Federal Circuit, any evidence submitted in furtherance of the counterclaim must be treated as harmless, no matter how prejudicial and inflammatory it might be. This far from self-evident *per se* rule has particularly dire consequences in the administration of the Patent Statute or any other statutory scheme conferring a limited monopoly, because it greatly encourages the filing of frivolous counterclaims, thereby improperly conditioning the exercise of constitutionally-derived, Congressionally conferred monopoly rights upon "a demonstrated lack of anticompetitive intent." *See Professional Real Estate Investors,* 113 S.Ct. at 1930.

II.

Respondents, as we have noted, claim that the petition rests on the "mistaken assumption" that respondents' sham litigation counterclaim was insufficient as a matter of law, contending that "there was never such a determination and this court should not make one." (Opp. at 1 and 14). This line of argument makes no effort to defend the merits of the harmless error rule announced by the court below and which petitioners challenge here. The court below did not even intimate — let alone conclude — that the counterclaim was legally sufficient. Quite to the contrary, the court virtually acknowledged that the sham

litigation counterclaim should not have gone to the jury; its opinion "assum[ed] that the alleged errors [of not striking the counterclaim] occurred." App. A-10. In an attempt to divert attention from respondents' continued failure to overcome petitioner's constitutionally-derived immunity from sham litigation counterclaims, respondents ask this Court to blind itself to the rule actually applied by the court below. They seek to divert attention from the real issue by portraying petitioner as evil and undeserving of any relief.[1] This is a paradigmatic illustration of the type of conduct the Federal Circuit's harmless error rule encourages.

While not of ultimate significance here, *see Field v. Mans* and *Thompson v. Keohane, supra*, respondents' factual assertions should not go unchallenged in this Court. Respondents concede, as they must, that probable cause to bring suit should be decided as a matter of law when the predicate facts are not in dispute. *Professional Real Estate Investors,* 113 S.Ct. at 1930. As stated in petitioner's opening brief, when respondents' counterclaim was before the district court, the objective merit of petitioner's suit was incontrovertible for numerous reasons. Respondents deny that fact, pointing to decisions which state that the grant of a preliminary injunc-

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[1] Respondents repeatedly ignore the objective prong of a sham litigation claim as set forth in *Professional Real Estate Investors*, or attempt to reduce it entirely to a wholly subjective standard. For example, they characterize the objective prong as whether petitioner "acted in objective bad faith" (Opp. at 11) and portray "probable cause" as synonymous with "good faith or lack of it." (Opp. at 12). Respondents also assert that petitioners invited any prejudice by opposing their unworkable bifurcation proposal. Petitioner opposed the bifurcation because it would have fragmented both discovery and petitioner's infringement and damages claims. At the same time, it was always petitioner's position that the jury should not have an opportunity to hear respondents' unfair competition counterclaim. (A1088-1115; A1714-48; A1795-18805).

tion was not *alone* dispositive.[2] In these decisions, virtually all of which *sustained* the *Professional Real Estate Investors* defense, the court of appeals had *unanimously* reversed issuance of the injunction. Moreover, these cases do hold that the issuance of a preliminary injunction is highly probative of whether a party has probable cause to bring suit. *See Boulware v. Nevada Dept. of Human Resources*, 960 F.2d, 793, 799 (9th Cir. 1992). And here there is much more. As stated above, the uncontroverted objective merit of petitioner's suit is grounded on much more: (a) the district court had already granted petitioner's motion for a preliminary injunction (JApp. 1057-58); (b) one judge of the Federal Circuit had voted to affirm that order; (c) respondents had not contested the validity of petitioner's patent (JApp. 3116-479, 5299); (d) a 1977 opinion of respondents' patent counsel had stated that the patent was valid and might well be infringed (JApp. 3120-60); and (e) evidence obtained from respondents prior to filing this suit provided a sufficient basis for the suit (JApp. 482-83, 5879-80). Respondents did not dispute the evidence, and no showing to the contrary was ever attempted.[3] The counterclaim should therefore have been stricken as a matter of law.

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[2] As part of their strategy to portray this litigation as completely fact-dependent, respondents hope to muddy the waters by invoking *res judicata*. We note only that respondents' *res* judicata defense has been found meritless on every occasion. The district court granted judgment as a matter of law on this defense at the close of respondents' case. JApp. 5990. Respondents appealed the issue to the Federal Circuit, which found respondents' arguments "meritless." App. A-13. Respondents have not appealed that ruling to this Court.

[3] Respondents' claim that the district court denied petitioner's motion for summary judgment on the sham litigation counterclaim based on respondents' Rule 56(f) affidavit is specious. The district court provided no reasons for its denial of the motion. JApp. 1700. Moreover, once a court has determined that the main claim is objectively reasonable, a sham litigation counterclaim is properly dismissed on summary judgment despite the defendant's claims that it had not been afforded discovery. *Professional Real Estate Investors*, 113 S.Ct. at 1931.

III.

As petitioner demonstrated in its opening brief, the Federal Circuit's failure to rule on the district court's erroneous jury charge is inconsistent with basic norms of judicial review, and that court deprived petitioner of its right of appeal. Respondents apparently concede that point, since they advance arguments directed only to petitioner's supposed "waiver." Respondents contend that petitioner's appeal to the Federal Circuit failed to urge error in the district court's jury charge — that determination of infringement under the doctrine of equivalents rested on equitable considerations. This statement is false.

As stated in petitioner's opening brief, petitioner presented the following issue for review:

> Did the district court commit reversible error:
>
> . . .
>
> (ii)(a) in directing the jury to weigh equitable considerations in determining infringement under the doctrine of equivalents. (Appellants Brief at 2).

Petitioner urged the Federal Circuit that the appropriate test for infringement under the doctrine of equivalents did not include weighing the equities, as the panel majority had instructed the district court in reversing the preliminary injunction:

> The equivalency determination itself does not involve any equitable considerations; a device or method is the equivalent of a claimed invention regardless of equities. . . . [The] "equities" represent the reason the doctrine of equivalents was created, not how it is applied.

(Appellants Brief at 32). Petitioner's brief correctly stated the law as recently affirmed in *Hilton Davis Chemical Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512 (Fed. Cir. 1995). The earlier Federal Circuit panel majority's opinion, on which the

district court based its jury charge, is directly contrary to *Hilton Davis*.

Respondents' contention that petitioner never presented this ground of appeal is further belied by respondents' own brief before the Federal Circuit, where respondents argued that the jury instructions were proper. There, respondents argued that "the claimed error in directing the jury to weigh the equitable considerations in determining infringement under the doctrine of equivalents was waived."[4] (Appellee's Brief at 40). Thus, respondents' position that petitioner somehow waived this ground of appeal is untenable.

CONCLUSION

The petition for certiorari should be granted.

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[4] Contrary to this statement, the lack of an objection at the trial level is not determinative of petitioner's right to a new trial. *Hormel v. Helvering*, 312 U.S. 552, 556-59 (1941); *Turner v. City of Memphis*, 369 U.S. 350 (1962). Respondents in fact agree:

> The plain error rule is applicable in this case and would have allowed the appeals court to evaluate the correctness of the charge on the doctrine of equivalents even though no exception to the charge had been taken.

(Opp. Br. at 17).

Respectfully submitted,

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